VANCOUVER

# HOUSING MARKET OUTLOOK

Canada Mortgage and Housing Corporation

## Pent-up Demand Driving Market

Spring 2002

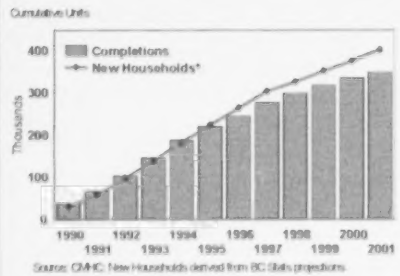
Today, the Vancouver housing market is being affected by two key drivers; pent-up demand and low mortgage rates. The rush of buying activity prevalent in Vancouver over the last six months was conceived back in 1997, when the formation of new households started to outpace the number of new home completions.

**Low mortgage rates unleash home buyers.**

This gap continued to widen every year since, and is a good indication of latent housing demand. Instead of buying or renting additional accommodation many households over the last several years simply doubled up because of the high cost of renting or owning a home in Vancouver. Moreover, the informal market picked up some slack through non-registered 'mortgage helper' suites. But as mortgage rates fell by as much as 280 basis points over 2001, many households discovered they could now afford to buy a home, and many did buy, particularly for the first time.

The average Vancouver home buyer affording a $1,300 mortgage payment found they could borrow $30,000 to $40,000 more at the end of 2001 compared to its beginning. This had a tremendous impact on first time buyers and the supply of starter homes in Greater Vancouver. MLS sales shot up in 2001. Single detached home sales rose 30 per cent, while the largest sales gains occurred in the more affordable multiple market, with sales of townhouses up 43 per cent and apartments up 46 per cent. Similar figures were recorded in the Fraser Valley as sales of single detached homes jumped 37 per cent and sales of condominiums increased 39 per cent. New housing construction activity was also on the rise. Total housing starts increased 30 per cent, and while single detached starts rose a healthy 12 per cent, multifamily starts jumped by a dramatic 45 per cent over the previous year.

**Pent-up Demand in B.C.**




Source: CMHC, New Households derived from BC Stats projections

*For more information contact:*
*Cameron Muir, Senior Market Analyst*
*Tel: (604) 737-4144*
*Email: cmuir@cmhc-schl.gc.ca*

**IN THIS ISSUE**

Pent-up Demand Driving Market ..... 1
Mortgage Rate Outlook....2
New Home Market.....2
Resale Market.....5
Feature Article.....6
Economic Overview.....7
Forecast Summary.....8

CMHC SCHL

HOME TO CANADIANS
Canada

# Mortgage Rate Outlook

## Gradual lifting of mortgage rates on the horizon

Many financial market observers expect the prime rate, money market, and short-term bond yields to begin rising in 2002. Short-term mortgage rates are expected to follow a similar pattern. Short-term rates will likely rise going into 2003, and perhaps as early as the second half of 2002, as the Bank of Canada and the U.S. Federal Reserve raise their respective benchmark interest rates to offset a strengthening economy.

a growing economy with the commensurate job growth and gain in household income is not necessarily bad news. In fact, a strengthening North American economy at this point will operate to enhance consumer confidence and bolster housing market activity.

Financial market expectations of higher short-term rates in the next several years have already been translated into higher long-term bond yields. Long-term mortgage rates have followed suit. As a result of these market expectations, the outlook for posted short-term mortgage rates in 2002 still remains favourable despite a trend toward higher rates. Expect the one-year mortgage rate to edge up in the 5.40 - 5.70 per cent range during the remainder of 2002. The three-year rate is forecast to also rise within a 6.70 - 7.35 percent range, while the five-year mortgage rate will remain in the 7.50 - 8.00 per cent range.

### Strengthening economy will enhance consumer confidence.

For the Vancouver housing market this will be a mixed blessing. Certainly low mortgage rates have induced many households to buy housing, particularly for the first time. However, after a considerable amount of pent-up demand has already been manifested in Greater Vancouver housing markets,

# New Home Market

## Strong Demand a signal to home builders

Despite a volatile year for the North American economy, housing starts in Metro Vancouver posted significant gains in 2001, with overall starts rising 30 per cent to 10,682 units. Single detached starts rose 12 per cent to 3,512 units, while multiple starts jumped 45 per cent to 7,350 units. New home construction will continue on an upward trajectory through 2002. Low interest rates in the first half of the year and a recovering economy in the second half will provide the necessary stimulus to both new home buyers and new home builders/developers.

Total housing starts are forecast to rise 15 per cent this year to 12,500 units in the Vancouver CMA.

### Housing starts to rise 15 per cent this year.

The new condominium market is facing significant demand. Low mortgage rates have cut the cost of home ownership in Vancouver for the first time in years. Moreover, the gap between the cost of owning a home versus renting a home has narrowed, making home ownership an affordable alternative for many renters. Combine this with a tight rental market, where the average vacancy rate in the Vancouver CMA is just 1 per cent, and a jump in first time buyer activity is no surprise. In fact, buying activity has been so strong in many areas that builders have been unable to satiate demand.

If you scoured the Greater Vancouver region between West Vancouver and Abbotsford you would find just 381 new apartment condominiums complete and

*continued on the next page*

ready for occupation by the end of March 2002. At the same time only 3,231 apartment condominium units were under construction across the region. In fact, the total supply of new condominiums (units under construction + units complete and unoccupied) over the first quarter of 2002 was less than half the amount for any month during the 1990s.

Strong demand and a falling supply of new units has induced price gains in many areas, as more and more buyers bid on a dwindling supply. New single detached construction in Vancouver is particularly affected by a limited land supply, high development costs, and increasing demand, particularly by older move up buyers. This combination has elevated the average price of a new single detached home in Vancouver by 7 per cent to $449,500 over 2000. Expect a further 2 per cent gain in 2002 as high priced new homes face increased competition from renovators of existing homes located in preferred neighbourhoods.

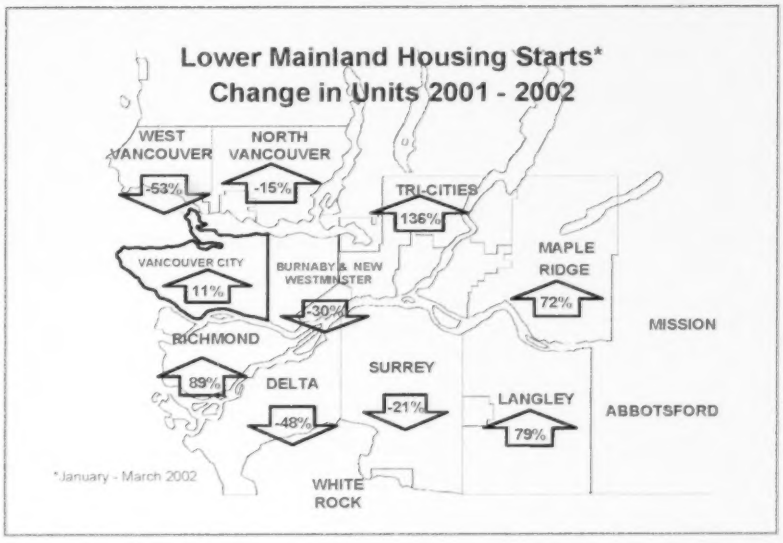
## Demand and falling supply induce price gains.

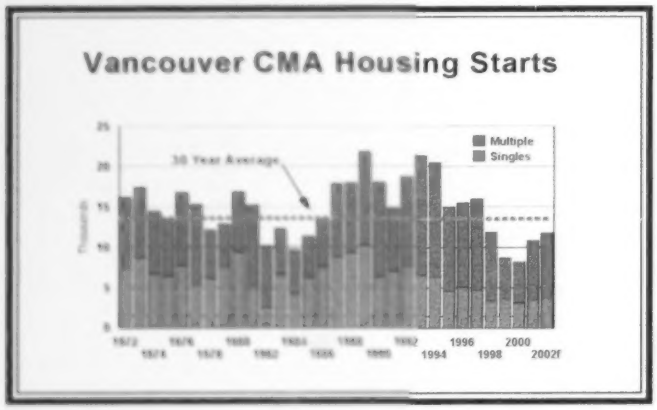
Despite a large number of first time buyers purchasing lower priced starter homes, the average price for a new apartment condominium in Vancouver increased 6 per cent last year to $263,200. Pent-up demand and low mortgage rates caught many builders by surprise, resulting in a dwindling supply of new units and a commensurate upward pressure on prices. Moreover, the lack of new supply has forced many would-be new apartment buyers into the resale market, exerting pressure on prices on that side of the ledger.

The average price for a new townhouse in the Vancouver CMA actually declined by 1.7 per cent to $234,900 in 2001. The lower absorbed prices were a result of higher demand by first time buyers for lower priced units, compared to the year 2000 where high end niche buyers garnered a larger share of the market. Demand over the first quarter of 2002 has outpaced supply to the point where the total supply is only 855 units, with just 155 new row units complete and available for occupation. Strong demand for new townhouse units will push up prices by 3 per cent over the remainder of 2002.

While government belt-tightening and the softwood lumber trade dispute is adding friction to an economy struggling to wheel free, there are a number of signs that the economy is poised for a recovery. U.S. first quarter GDP rose more than 5 per cent, likely accelerating demand for Canadian exports. Moreover, the provincial employment level grew in

*continued on the next page*



the first quarter, halting the fall in full-time employment seen throughout most of 2001.

## Employment gains a neccessary ingredient.

A strong economy with the accompanying employment and productivity gains are a necessary ingredient to long term growth in the housing sector. Low mortgage rates are merely a top-down short term boost to demand, effectively lowering the cost of housing. However, all things being equal, lower mortgage rates will operate to push prices up to the point where any cost savings will be eliminated. The key to strong long term growth in the housing market is necessarily bottom-up or productivity driven, where higher wages and employment levels induce households to commit to buying homes.

A thriving economy also has the effect of attracting households in search of employment as well as housing. Total net migration from all sources to B.C. rose 57 per cent to 23,188 individuals in 2001. A significant gain. However, last year's figures were still far lower than the 78,700 that migrated to the province in 1994. While international migration has remained robust with 32,179 net immigrants moving to the province last year, B.C.'s share of immigrants to Canada has fallen from a high of 23 per cent in 1996 to around 15 per cent in 2001. Net interprovincial migration has been in negative territory since 1998 when nearly 21,000 more people left the province to other parts of Canada than moved to B.C. It is good news that the outflow is waning with a net loss of just 3000 people expected this year, leading to positive growth by 2003.

## Net Migration up 57 per cent in 2001.

Total housing starts in the Vancouver CMA during 2002 are forecast to rise 15 per cent to 12,500 units. Single detached starts are projected to rise 28 per cent to 4,500 units, while multifamily starts are forecast up nearly 9 per cent to 8,000 units. The average price for new housing is forecast to rise as well. New single detached housing in Vancouver will increase nearly 2 per cent (1.7%) to $457,000, while the average price for a new condominium apartment will rise just over 2 per cent (2.2%) to $269,000, and the average price of a new townhouse also moving up over 2.5 per cent (2.6%) to $241,000.

Looking forward into 2003, the Vancouver housing market will continue building momentum, with housing starts forecast to rise another 12 per cent to 14,000 units overall. A revived economy and positive net interprovincial migration will offset any expected mortgage rate increases as productivity and related employment gains prove more powerful in the longer term.

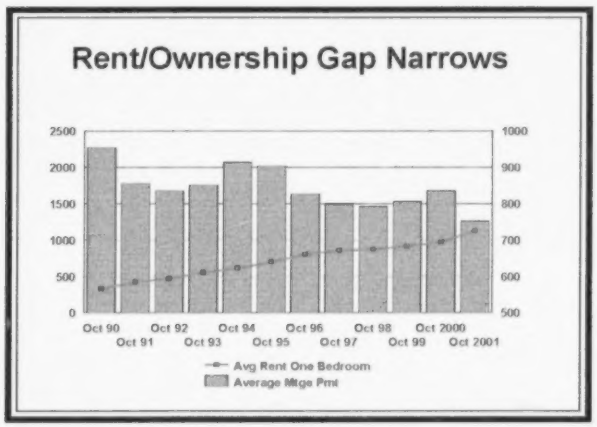

***HOUSING NOW***

*A monthly housing report focusing on your local market. It combines the latest data with expert analysis to answer all your critical information needs. Every issue contains local statistics on starts, absorptions, inventory, price trends and the economic factors that affect your market most. Clear, concise and easy to read. Housing Now is the ideal resource to stay on top of local trends and the state of the industry.*

***To subscribe call:***

*Lisa Preston - Administrator, Products and Services*

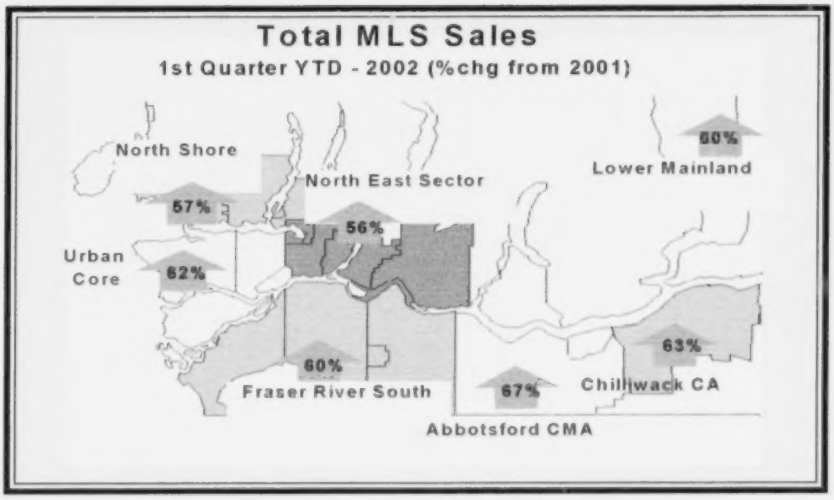
*Phone: (604) 737-4088*
*Fax: (604) 737-4021*
*e-mail: lpreston@cmhc-schl.gc.ca*

# Resale Market

## First time buyers leading the way

The year 2001 has indeed been an odyssey for Greater Vancouver housing markets. Most analysts would have been hard pressed last January to come up with a positive outlook, if they were asked to imagine the events of the past twelve months.




## Most MLS sales since 1994.

The most significant of these being the meltdown in the high-tech sector and the corresponding reality check in the equity markets, the softwood lumber trade dispute, and who can forget the tragic events of September 11th, which sent the whole North American economy into a tailspin. But people kept buying homes. In fact, more MLS sales were recorded during 2001 than in any year since 1994.

Overall, 27,825 residential units in Greater Vancouver were sold on MLS during 2001, an increase of 36% over the year 2000. Sales of single detached homes rose 30% over 2000. However, the proportion of the total sales pie made up of single detached units is declining, down to 50% of all residential sales in 2001. The largest gains came from the multiple side, where the sales of attached units climbed 43% and apartment sales jumped 46% over year 2000 levels. This shift in demand is the result of two market forces that were strong enough to supersede even the shock wave from New York City.

The average chartered bank three year term mortgage rate declined 200 basis points in 2001. This meant a typical home buyer who could afford a maximum mortgage payment of $1,200 per month could borrow as much as $30,000 more at the end of the year than at its beginning. As a result, many households were able to buy a home for the first time last year. Those previously unable to qualify for a mortgage found that they could not only afford a home but had a wider variety of homes to choose from.

## Recovery -led employment growth to offset rising mortgage rates.

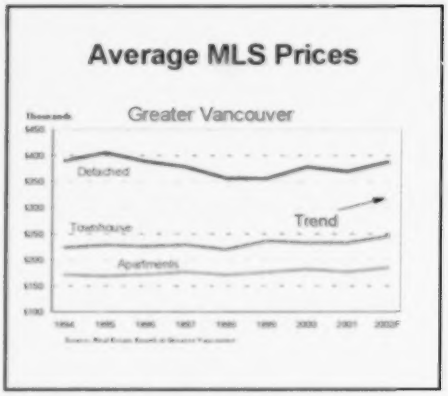
Moreover, lower mortgage rates made housing more affordable for everyone. Move-up buyers, seniors, even home renovators benefited from more affordable financing.

Many households did buy a home, particularly for the first time. The trend of increased activity last year in the niche luxury home market was simply overpowered by the shear number of first time buyers. As a result, average prices fell in many areas as a greater proportion of home sales consisted of lower priced starter homes, especially condominiums. North Vancouver, for example, experienced a 3% decline in the average price of an apartment condominium despite having a 50% increase in sales. The average price for attached units in Burnaby also fell 3.5%, while sales jumped by more than 60%.

Look for buoyant market conditions to continue through 2002. Already, first quarter MLS sales across the

*continued on the next page*

Lower Mainland are up 60 per cent compared to the same period last year. Mortgage rates will begin to edge upward toward the summer months as the Canadian economy recovers, inducing many home buyers to commit to purchases at their pre-approved rate. However, recovery-led employment growth will more than offset any lifting in mortgage rates. Expect more activity in the move-up market this year as well as increased residential construction activity, particularly single detached homes in suburban locations. Total residential sales in Greater Vancouver are forecast to increase by 4% to 29,000 units. Average price levels have begun to edge up as the combination of significant winter buying activity and weather delayed spring listings has depleted MLS inventories. Look for increased new listing activity in late spring to level home prices. Over the course of 2002 average prices will rise 5 - 6%, with most of the increase occurring in the second half of the year.




# Feature Article

## Buyers Move up & Move Urban

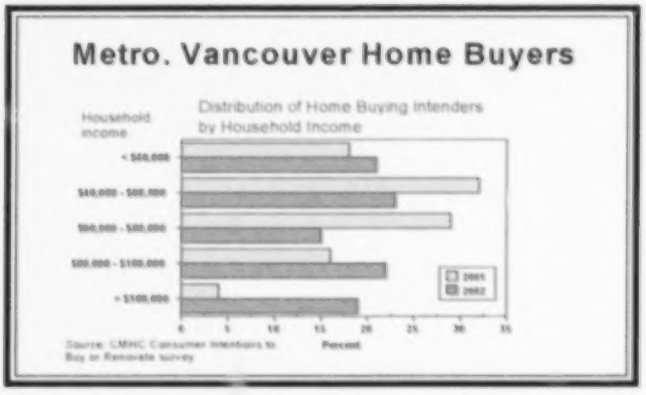
Single detached homes are the most sought after type of accommodation. They have the advantage of spaciousness, distance from ones neighbours, and a certain cultural sensibility mixed up in the history of the New World. It is no wonder that nearly 70 per cent of Greater Vancouver households intending to buy a home in 2002 will be looking for the single detached home variety. The next most popular home type are townhouses and semi detached homes such as duplexes, also ground oriented, favoured by 20 per cent of home buyers. Finally, apartment condominiums are the preferred habitation for around 19 per cent of households intending to buy a home.

### Two third's of repeat buyers to move up

Surprisingly, preference for single detached homes peaks at the 25-34 year old age group. However, affordability constraints may drive many of these young households into more affordable apartments or townhouse units. Another age group with a strong preference for single detached living are 35-44 year olds, where more than three quarters of these households indicate this preference. Since these buyers are in their prime child rearing years, it makes sense that they prefer larger single detached homes with yard space.

Peak household spending typically occurs from those aged 45-54. One would expect this high earning high spending group of households to be in the single detached market in a big way. But this is not the case. The same proportion of these households are looking for a single detached home as home buyers aged 65+. Interestingly, a large group of home buyers looking to buy an apartment are aged 45-54. Fully 30% of households in the market for an apartment condominium are aged between 45 and 54.

Older apartment buyers are not necessarily moving down. Three quarters of all Greater Vancouver households who already own their homes will either pay the same or more for their next purchase, two-thirds will pay more. In addition, more high income households are in the market for a home in 2002, signalling a shift from first time buyers towards older move-up buyers. Many are looking to downtown locations where cultural, retail, and recreational opportunities abound. These adult lifestyle buyers are trading in their suburban homes for luxury condominiums.



# Economic Overview

## British Columbia economy poised for recovery

Spring has been slow to arrive in Vancouver over this year, and it seems as though the cloud of economic uncertainty hovering over the province is as reluctant to leave as winter. It was no surprise to learn that B.C. posted its weakest economic growth in ten years. Provincial GDP growth in 2001 was a paltry 0.9 per cent. Falling corporate profits, the high tech melt down, and Sept. 11 all contributed to a decline in the North American economy.

### Firms restructure to bolster competitivness.

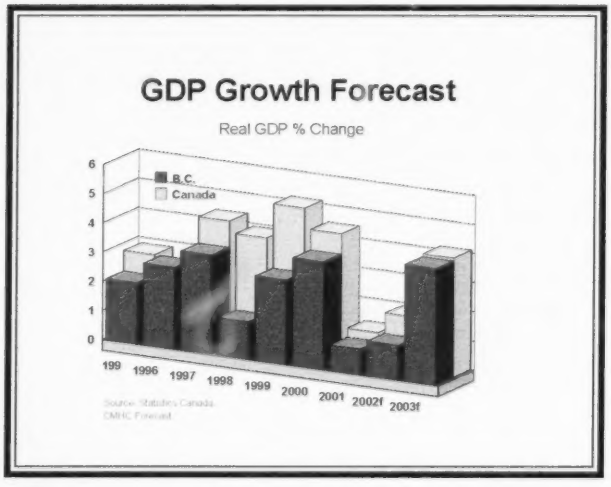
B.C.'s economy was further eviscerated by the Canada-US softwood lumber dispute and subsequent 32% duty on Canadian softwood exports. Temporary job losses in British Columbia are estimated to be 9,000 on the coast and 3,400 in the interior region. With nearly 25 per cent of provincial GDP derived from logging, wood, paper, and allied products manufacturing, B.C. struggled to achieve positive growth last year. In fact, lumber and wood pulp contributed to a 9.0 per cent decline in B.C.'s international exports in 2001. Layoffs in lumber and related industries also led to employment falling for the first time in almost two decades.

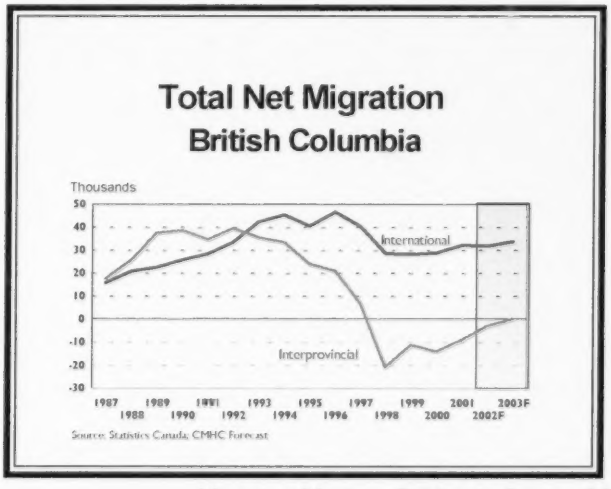
However, there are signs that our economic winter is nearly over. As negative as the softwood dispute has been, the crisis may induce many firms to restructure their operations in order to bolster competitiveness. Inventory levels in the U.S. are drawing down to the point where increasing orders to manufacturers, many in located in B.C., will be necessary to satiate demand. Already bond yields are rising as investors look once again to equities in anticipation of an expanding economy and increased corporate profits.

### GDP up this year and next.

Retail sales have been buoyant over the last twelve months despite a lacklustre economy, signalling confidence of an early turnaround in the cycle. While the ratio of corporate debt to equity continues its decade long slide, consumer credit and mortgage debt as a percentage of disposable income rose to a new high in 2001. Historically low interest and mortgage rates had the predictable result of inducing many households to finance purchases of real estate and consumer products. There is a risk, however, that higher interest and mortgage rates down the road will stymie the spending patterns of an already debt laden population.

During the first quarter of 2002 U.S. GDP rose more than 5 per cent (seasonally adjusted at annual rates), pointing toward increased demand for Canadian products. B.C. is also experiencing a turning point. Employment jumped by nearly 1 per cent (18,200) on a seasonally adjusted basis in the first quarter of 2002, while the unemployment rate has 'plateaued' at 8.9 per cent. Moreover, population growth is set to rise as the net loss in inter-provincial migration is waning. Expect provincial GDP to increase marginally by 1.2 per cent during 2002, with the softwood lumber dispute, government belt-tightening, and a nervous tourism sector retarding growth this year. By 2003 provincial GDP will be well on the road to recovery, with the growth rate expected to reach a healthy 4.0 per cent.



# Forecast Summary

| | 2000 | 2001 | 2002F | %Chg. | 2003F | %Chg. |
|---|---|---|---|---|---|---|
| **Resale Market** | | | | | | |
| MLS-Greater Vancouver | | | | | | |
| Single-Detached | 11,363 | 14,735 | 15,200 | 29.7% | 15,400 | 1.3% |
| Townhouse | 3,075 | 4,383 | 4,500 | 42.5% | 4,600 | 2.2% |
| Apartment | 6,034 | 8,791 | 9,300 | 45.7% | 9,500 | 2.2 % |
| MLS-Fraser Valley | | | | | | |
| Single-Detached | 5,799 | 7,931 | 8,900 | 36.8% | 9,200 | 3.4% |
| Condo | 2,981 | 4,148 | 4,500 | 39.1% | 4,600 | 2.2% |
| MLS Total Sales | 29,252 | 39,988 | 42,400 | 36.7% | 43,300 | 2.1% |
| Single-Detached | 17,162 | 22,666 | 24,100 | 32.1% | 24,600 | 2.1% |
| Condo | 12,090 | 17,322 | 18,300 | 43.3% | 18,700 | 2.2% |
| Average MLS Price | | | | | | |
| Greater Vancovuer | | | | | | |
| Single-Detached | $378,130 | $369,268 | $387,800 | -2.3% | $399,000 | 2.9 % |
| Townhouse | $232,392 | $232,434 | $245,000 | 0.0% | $247,000 | 0.8% |
| Apartment | $182,027 | $176,730 | $185,000 | -2.9% | $184,000 | -0.5% |
| Fraser Valley | | | | | | |
| Single-Detached | $245,977 | $251,380 | $263,000 | 2.2% | $266,000 | 1.1% |
| Condo | $143,031 | $141,496 | $146,000 | -1.1% | $148,000 | 1.4% |
| **New Home Market** | | | | | | |
| Starts | | | | | | |
| Greater Vancouver | | | | | | |
| Total | 8,203 | 10,862 | 12,500 | 32.4% | 14,000 | 12.0% |
| Single-Detached | 3,132 | 3,512 | 4,500 | 12.1% | 4,700 | 4.4% |
| Multi-Family | 5,071 | 7,350 | 8,000 | 44.9% | 9,300 | 16.3% |
| Fraser Valley | | | | | | |
| Total | 607 | 694 | 840 | 14.3% | 870 | 3.6% |
| Single-Detached | 536 | 584 | 650 | 9.0% | 680 | 4.6% |
| Multi-Family | 71 | 110 | 190 | 54.9% | 190 | 0.0% |
| Average Price | | | | | | |
| Vancouver CMA | | | | | | |
| Single-Detached | $419,625 | $449,444 | $457,000 | 7.1% | $462,000 | 1.1% |
| Townhouse | $238,865 | $234,909 | $241,000 | -1.7% | $244,000 | 1.2% |
| Apartment | $247,922 | $263,171 | $269,000 | 6.2% | $269,000 | 0.0% |
| Chilliwack CA | | | | | | |
| Single-Detached | $203,045 | $204,950 | $205,000 | 0.9% | $207,000 | 1.0% |
| Townhouse | $132,978 | $126,888 | $129,000 | -4.6% | $130,000 | 0.8% |
| Apartment | $94,450 | N/A | N/A | * | N/A | |
| Abbotsford CA | | | | | | |
| Single-Detached | $250,998 | $252,364 | $258,000 | 0.5% | $262,000 | 1.6% |
| Townhouse | $178,933 | N/A | N/A | * | N/A | |
| Apartment | $125,359 | $119,000 | $124,000 | -5.1% | $124,000 | 0.0% |



© 2002 Canada Mortgage and Housing Corporation. All rights reserved. No portion of this publication may be reproduced, stored in a retrieval system or transmitted in any form or by any means, mechanical, electronic, photocopying, recording or otherwise without the prior written permission of Canada Mortgage and Housing Corporation. Without limiting the generality of the foregoing, no portion of this publication may be translated from English into any other language without the prior written permission of Canada Mortgage and Housing Corporation. The information, analyses and opinions contained in this publication are based on various sources believed reliable, but their accuracy cannot be guaranteed. The information, analyses and opinions shall not be taken as representations for which Canada Mortgage and Housing Corporation or any of its employees shall incur responsibilities.